



Jerry E. Abramson
Mayor

26 Member
Metro Council

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Office of Internal Audit

Audit Report

Office of Internal Audit

Department of Finance and Budget

Parking Facilities Management

August 2003



Finance and Budget

**Parking Facilities
Management**

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LOUISVILLE, KENTUCKY
OFFICE OF INTERNAL AUDIT

JERRY E. ABRAMSON
MAYOR

RON WESTON
PRESIDENT, METRO COUNCIL

Transmittal Letter

August 19, 2003

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall

Re: Audit of the County Parking Facility Management

Scope and Opinion

We have examined the operating records and procedures of the Metro Government parking facilities operated by a contract vendor. The primary focus of the audit was the operational and fiscal administration of the activity for the Jefferson County Garage and the Louisville Gardens Garage.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

The operating procedures of the parking facility contract operator were reviewed through interviews with key personnel. The operational and fiscal administration of activity was reviewed. The specific topics included the following:

- Fiscal Administration
- Facility Operations

The scope and methodology of the areas reviewed will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page 4. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for the parking facilities management is weak. There were some specific problems that indicate the internal control structure could be more effective. Examples of the problems include the following.

- Monitoring and reconciliation of revenue and expenditure activity is inadequate. This lack of oversight does not adequately protect the revenue and weakens the reliability of the financial statements.
- Several expenditure charges cannot be verified as appropriate due to missing or inadequate documentation. This includes both the verification of merchant payments and payroll related charges.
- Deposits are not made in accordance with established policies and procedures. This hinders the safeguarding of the funds and weakens the usefulness of the financial statements.

In the interest of improving efficiency, the Metro Government has chosen to incorporate the two parking facilities into operations administered by the Parking Authority of River City (PARC) as of July 1, 2003. Management by parking facility professionals should help address the administrative weaknesses noted. The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of parking facility management.



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Community Development
Chief Financial Officer
Executive Administrator of the Parking Authority of River City

Internal Control Rating



<i>Legend</i>			
<u>Criteria</u>	<u>Satisfactory</u>	<u>Weak</u>	<u>Inadequate</u>
<i>Issues</i>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Introduction

The (former) Jefferson County Government entered into a contract with a vendor for the purpose of managing and operating parking facilities. The contractor has the administrative responsibility of managing the daily operations of two parking facilities owned by Metro Louisville.

- Jefferson County Garage located on the corner of Fifth and Market Streets
- Louisville Gardens Garage located between Sixth and Armory Streets

Operating responsibilities involve managing parking facility staff, preparing payroll and related expenditures, purchasing supplies, maintaining accounts payable and collections, and reporting all revenue and expenditure activity to Metro Finance.

Metro Government departments perform various oversight responsibilities, which include the following:

- Finance has the administrative responsibility of reconciling the monthly financial report issued by the contractor, as well as, depositing and recording the revenue generated from the Metro Government parking facilities.
- The (former) County Department of Public Works maintains a listing of government employees with facility parking privileges, along with a copy of the operating agreement. Public Works does not actively perform any administrative or monitoring duties related to parking facility operations.

The total revenue receipts budget for fiscal year 2003 is approximately \$640,000 for the Jefferson County Garage, and \$534,000 for the Louisville Gardens Garage. After applicable expenses, anticipated net revenues paid to local government are approximately \$1,071,000.

This audit was requested by the Deputy Mayor of Louisville-Jefferson County Metro Government.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not conducted any reviews of the former Jefferson County parking facilities.

III. Statement of Auditing Standards

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials

An exit conference was held at the Metro Department of Finance and Budget on July 10, 2003. Attending were Jane Driskell and Tony Hofmann representing the Metro Finance Department; Cathy Duncan representing the Parking Authority of River City; Mike Norman and Mark Doran representing Internal Audit. Final audit results were discussed.

The views of the Metro Finance Department officials are included as responses in the Observations and Recommendations section of the report.

Observations and Recommendations

Fiscal Administration

Scope

Key personnel were interviewed in order to review the operational and fiscal administration of parking facilities. This included the processing, records management, and monitoring associated with revenue and expenditure activity.

The following examinations were performed for the period July 1, 2002 through January 31, 2003.

1. One month of expenditures withheld from revenue for each parking facility was judgmentally selected for the review period. The review consisted of examining financial reports issued to Metro Finance; payroll documents, merchant invoices along with related payment documentation and financial reports from the contractor.
2. Three monthly revenue reports for each parking facility were judgmentally selected for the review period. The review consisted of examining financial reports issued by the contractor. The associated receipts were verified to the contractor's financial reports, and ultimately to the County Financial Accounting System (FAS).

These areas were reviewed to assess the completeness, accuracy, and appropriateness of the transactions processed. The following concerns were noted.

Observations

There were some problems noted with the fiscal administration of parking facilities. As a result, the internal control structure is weakened and its effectiveness impaired. Examples of weaknesses include the following.

- The parking facility contractor submits monthly revenue payments to Metro Government. The contractor receives customer payments for parking privileges, as well as, incurs the costs associated with facility operations. The contractor presents payments based on gross revenues, less expenses from approved budget categories. The contractor is responsible for maintaining all detailed records and for providing documentation to support the activity at each facility. The following concerns were noted.
 - There does not appear to be effective reconciliation and monitoring of financial information submitted to Metro Finance. The following problems were not detected through routine monitoring.
 - The contractor charged twenty-seven invoices for one month that were not associated with an approved budget category. Fifteen of these invoices were not reported on the Cash Basis Income Statement provided to support the monthly activity. These resulted in decreasing the payment to Metro Government by \$296.59.

- It appears a portion of payroll charges for one month was withheld twice. This resulted in decreasing the payment to Metro Government by \$800.
- The contractor's reports do not provide an accurate reflection of actual expenses. While the contractor's detailed records reflect actual activity, the reports submitted to Metro Government "adjust" expenses to approximate the monthly budget for categories. This lessens the dependability of the financial reports and hinders effective monitoring.
 - Seven contractor employee payroll expenses did not equal the actual expenses withheld from revenue.
 - For one pay period, the contractor's internal payroll records do not reconcile. This documentation is intended to support the expenditures charged to facility operations.
- The contractor's staff maintains individual time reports to account for the payroll expenses charged for operating the Metro Government facilities. There were a couple of problems associated with this information.
 - There is not sufficient information maintained to document payroll charges for staff whose time is allocated to multiple facilities.
 - Individual employee time cards for one pay period could not be located.
- One invoice for expenses charged to facility operations could not be located by the contractor. This was a payment made to Jefferson County Fiscal Court in the amount of \$68.52.
- According to the contractor's operating proposal/agreement, the monthly financial reports, along with the associated revenue payment, should be submitted by the 20th of each month. The (former) County Finance Department receives this information, reviews the supporting detail and deposits the revenue payment. The following problems were noted with this process.
 - There were four cases in which the monthly statement and payment were received several days after the required date.
 - There were two cases noted in which revenue payments were held several days after receipt. This increases the likelihood that payments may be lost or misplaced.
 - In six cases, the Financial Accounting System (FAS) revenue posting was delayed from seven to eight days after the deposit date. It is imperative that financial transactions be posted timely so the system reflects all activity.

Recommendations

Appropriate Metro Government personnel should take necessary action to address the issues noted. Specific recommendations include the following.

- ✓ Metro Finance staff should take immediate action and review the available documentation in order to make a determination as to whether or not a balance is due from the parking facility contractor.
- ✓ Immediate action should be taken to collect the balance of any payments due.

- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that Metro Finance review revenue and expense information on a regular basis. This includes ensuring that reports appear to be accurate and detailed documentation supports the totals. Additionally, fiscal performance should be measured and compared with periodic budget guidelines.
- ✓ An effective monitoring system should also include some type of operational review. While daily monitoring of contractor activities may not be necessary, an overall familiarity with the operational management (cashier systems, transaction processing procedures, cost allocations, etc.) is necessary to ensure adequate internal controls are considered.
- ✓ Procedures should be developed to ensure that report information is verified for completeness and accuracy. The accuracy of the contractor's reports should be verified by reviewing various forms of supporting documentation. This may include sampling merchant invoices and related accounts payable records, along with payroll documentation.
- ✓ It may be more effective for parking facility operating contracts to be awarded as base management fee agreements in lieu of allowing actual expenses to be deducted from total revenue. This would relieve the responsibility of detailed expenditure monitoring and require the focus to be on revenue receipts. Various incentives may be offered to the contractor based on defined performance standards.
- ✓ The contractor should adhere to budget guidelines for operating expenditures. Any exceptions should be properly documented as approved by Metro Government and communicated to appropriate personnel.
- ✓ It is essential to have accessible supporting documentation that confirms the information stated on financial reports. All charges made against revenue should be clearly documented.
- ✓ The contractor's monthly operating reports and revenue payments should be submitted on a timely basis.
- ✓ Deposits should be presented to the bank as soon as possible to ensure assets are safeguarded and to take advantage of accrued interest. Appropriate personnel should ensure all financial policies and procedures are adhered to (e.g. former City policy stated deposits must be made at least weekly or when they exceed \$1,000, whichever occurs first).
- ✓ Financial transactions should be posted to the financial system in a timely manner. This helps to ensure that the financial statements reflect all fiscal activity. Accurate and timely financial postings should also be included as part of an effective reconciliation process.

Facility Operations

Scope

Key personnel were interviewed in order to review the operational and fiscal administration of parking facilities. This included the processing and records management associated with parking facility revenue sources. The focus was on the overall management of parking facility revenue administered by the contract operator.

Fifteen revenue files and reports were judgmentally selected for each parking facility from the period of July 1, 2002 through January 31, 2003. The following types of transactions were reviewed.

1. Transient parking tickets sold to customers. Individual tickets are mechanically issued when the vehicle enters the facility and the parking cost is charged by an attendant when the customer exits. The amount charged is in accordance with a fee schedule based on the amount of time the vehicle remained in the parking facility.
This review also included COD transactions. Envelopes are placed on vehicles that remain in the facility at the close of business. Patrons are requested to place their payments in the envelope provided and place it in a drop box. This is an "honor system" attempt to collect fees due.
2. Monthly parking passes purchased by individuals. This offers access to reserved and non-reserved parking spaces for a single fee.
3. Ticket validations paid by various entities. Certain organizations have agreements that allow for them to certify (stamp) parking facility tickets. The individual using the parking facility is not required to pay the fee; rather the validation account holder is billed for their monthly parking activity.

The review consisted of examining required processing forms (tickets issued, parking agreements, etc.), records management system files, fees due, revenue receipts and financial system statements to determine the completeness, accuracy, timeliness and appropriateness of activity processed. The following was noted.

Observations

There was a minor problem noted with the facility operations and related activity. However, the overall internal control structure is satisfactory. The following specific concern was noted.

- The operating proposal documentation and the contractor's described processing practices included withholding the deposit of monthly parking fees collected until the first business day of the month. This is intended to help match the payment to the effective period that the facility will actually be used. This increases the likelihood that payments may be lost or misplaced. It also weakens the accuracy of the financial reports maintained.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Fees collected should be deposited with the bank immediately. This would help safeguard the funds and accurately reflect the information on the financial statements.
- ✓ All funds should be maintained in a secure location and access should be limited to authorized individuals.

Department of Finance and Budget's Response

Changes are needed to improve the internal control structure and effectiveness of the previous County parking facilities. Officials of both the Office of Internal Audit and the Parking Authority of River City (PARC) were consulted. The transition of these two former County facilities to PARC should help achieve the needed improvements. PARC's implementation plan is included as part of this response. The plan includes:

- Effective July 1, 2003, PARC began requiring the Contractor to deposit all daily and monthly revenues into PARC's bank account. Previously, all revenues were deposited in the Contractor's bank account. The Contractor issued a reimbursement check monthly to the former County Government. This check was the "balance" of the gross revenues after the Contractor deducted all of their expenses for the month.
- Effective July 1, 2003, PARC is requiring the Contractor to submit a monthly report. This report provides supporting documentation of all expenses prior to reimbursement being processed. The reporting requirements mirror those set forth in PARC's current operating contract for our facilities.
- Once the fair market value has been determined and PARC assumes ownership of these two facilities, PARC intends to purchase and install state-of-the art revenue control equipment in both facilities. This equipment will be linked via-fiber optics to the PARC office compatible with the revenue control equipment in all PARC facilities. This equipment will allow PARC to monitor all activity in both facilities. PARC will also assume the responsibility of the monthly accounts receivable, ensuring prompt collection of monthly fees, as well as disabling those accounts that are in arrears. In addition, a policy decision will need to be made by the Administration with regard to the allocation of "no charge" parking of government employees. Currently, a significant number of "no charge" parking is allowed in both facilities.
- PARC's existing facilities are currently divided at Jefferson Street, identified as the South and North sectors. The current operating contracts for PARC facilities terminates October 31, 2003. As the new contracts are awarded, the Louisville Gardens garage will be added to the South sector, and the 5th & Market Street garage will be added to the North sector. Until this time, the current contractor, under the former County contract, Riverside Parking, Inc. will continue to operate both facilities with the above described procedure revisions and with PARC's oversight.



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Thanks for taking the time to help us. Please return in one of the following methods.

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